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Annual Report 2001



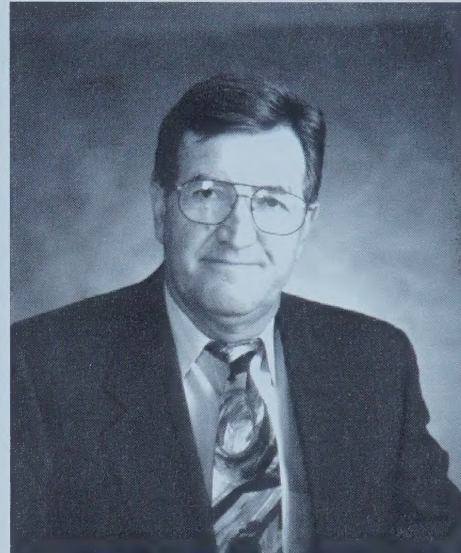
HOSPITALITY LTD.

Message from David J. Will

President and Chief Executive Office, Service Plus Hospitality Ltd.

The President's Comments

The work we completed during the last 4 years has led to the best year ever for Service Plus in terms of sales volume, cash flow, and earnings. With the enlargements to the facilities unleashed, annual revenue is approaching the \$ 10.0 million level, representing an increase of 13.3 % for the Grande Prairie group of operations. Our potential has yet to be actualized as this represents only 10 months of operations to the casino enlargement, and only 9 months of hotel operation with 123 rooms and suites now available . Total assets are quickly approaching the \$ 10.0 million mark. Total shareholders equity has also increased by 41.2 % during the year.



Operating profits increased 19.3 % over fiscal 2000 - staging another record financial performance. For the fiscal year net income increased to \$ 1.42 million. With the revenue streams quickly maturing throughout 2001; we were confident a robust year for profits would be evident. Service Plus has provided their shareholders an after tax return on equity of over 41.9 % for the year - outstanding shareholder value and financial performance as promised!

Revenues for the year increased by \$ 1.15 million for the hotel and casino operations in Grande Prairie. The gross margin rose to \$ 5.63 million, an increase of 23.9 % compared to 2000's year-end results of \$ 4.55 million. Pre-tax income rose substantially from \$ 2.84 million from fiscal 2000 to \$ 3.40 million. Current income taxes for the year total \$ 1.98 million. Service Plus posted a year-end EBITDA (Earnings before interest, taxes, depreciation, and amortization) in excess of \$ 4.2 million, an increase of 18.1 %. A basic cash flow per share of over 38 cents has been derived from these profits. The results achieved throughout 2001 stands as proof Service Plus Hospitality Ltd has once again "walked the talk" and delivered on the commitment to deliver their shareholders excellent returns on their investment.

The total cash received from operating activities was \$ 1.53 million. This included a reduction in short-term debt of \$1.03 million. Funds derived from the issuance of new shares and additional long-term debt totaled \$ 0.98 million. Funds disbursed for non-controlling interests amounted to \$ 1.32 million. Disbursements for capital assets including an investment in the Deerfoot Inn and Casino Joint Venture totaled \$ 2.56 million. With these transactions completed the cash position at the end of the fiscal year amounted to \$ 2.36 million.

Financial and Operating Highlights

Year Ended September 30, 2001

As indicated, the company has invested \$ 2.0 million into the Deerfoot Inns and Casino Joint Venture. The proceeds, amounting to 40.0 % of the total project costs incurred to date; have been used to purchase land in Calgary in addition to related soft costs incurred to date by the Deerfoot Joint Venture. These measurements and activities demonstrate the intent of Service Plus to continue their capital spending program within a cost efficient and strategic outlook. The "model concept" in Grande Prairie with its new facilities has become recognized as one of Western Canada's and most successful accommodation and entertainment centers. The company's success of selectively replicating this model will in large part depend on management's presentation and the mutual decision made by the peers of the gaming industry in due course.

A positive outlook

Our focus on success is reflected in our good fortune to have gained excellent prosperity in the hotel, multi lease and casino projects in Grande Prairie. The gaming industry in Alberta is undergoing tremendous change, from the structural and legislative standpoint. The new standards for growth and expansion in the gaming industry are becoming clear and measurable and should be completed during 2002. The joint venture's application will also commence early during 2002. Service Plus will continue to focus its energy and financial resources toward the Deerfoot project. Our long-term success will substantially increase revenues and capital growth; and maximize shareholder value, should our proposals and project proceed. With the reported cash funds of \$ 2.4 million, Service Plus Hospitality has the financial ability to proceed with new ventures. It is our intention to further enhance the asset base of the company during the coming year.

Another integral aspect of our overall performance is employee health, safety, and turnover. We have done much to improve employee training, awareness and safety practices, but we can never be satisfied with less than 100 per cent performance and zero incidents.

One of our objectives at Service Plus Hospitality is to continue to make our company better as well as bigger each year. The challenge is well worth the effort in developing each facility of the company into a top performer, and to continue to operate efficiently. The impact of our resolve will induce tremendous long-term benefits to both our guests and shareholders alike. We will continue to listen carefully to our customers. We must continue to clarify and communicate our position and mission both in business and in the community; while earning a high level of customer loyalty and satisfaction to those market segments which provide Service Plus with the greatest chance for viable revenue potential.

To reiterate - we will continue to make things easy for people for people to do business with us in virtually any form. In doing so we fully intend to provide our guests the right product and the right level of service and hospitality. We will also provide you - our shareholder - the highest levels of return possible; and expected when you invested in Service Plus Hospitality.

Refreshing Attitudes

We accomplished a lot in 2001. These bold and successful accomplishments were possible because of the people behind Service Plus Hospitality. Our employees have become more focused, increasingly innovative, and growth oriented. On behalf of the Board, I would like to thank all of the employees of our team for contributing to another successful and record year of financial performance. Service Plus Hospitality is a very competitive organization, and our employees have proven, through their loyalty and dedication to superior customer service - they can rise and meet the challenge.

I would also like to thank the members of our Board of Directors for their contribution to the success of Service Plus Hospitality during 2001. Our accomplishments are truly a testament to the experience, skills, and teamwork of all of our people.

To our shareholders

I believe the excellent growth prospects provided by our portfolio of profitable operations, combined with the exceptional upside from our future project opportunities, supported by our team of talented and committed professionals, will result in Service Plus achieving a premium share price valuation.

I hope you find these results satisfactory and encouraging. We are confident 2002 will be another record setting year for our company. On behalf of the officers and directors of Service Plus Hospitality Ltd., we thank you for your continuing support. I look forward to seeing you at our 4th Annual Meeting.



David J. Will
President and Chief Executive Officer
December 18, 2001

Management Discussion and Analysis

Year Ended September 30, 2001

The following discussion and analysis of Service Plus Hospitality's results should be read in conjunction with the consolidated financial statements and footnotes presented within this annual report.

Service Plus Inns and Suites - Grande Prairie, Alberta

The 24 room addition and waterpark facilities was open for operation on January 3, 2001. The financial results achieved reflect 3 months of operation with 99 rooms and 9 months of operation with 123 available rooms. The total cost of the enlargement project amounted to \$ 1.54 million of which, the financial statements the joint ventures share (50.0%) of these costs totaling \$ 772,168.

During the recent year, the hotel property generated a net cash flow after debt service of approximately \$ 1.54 million, an increase of 36.5 % over the previous year. Occupancy volume for the year has consistently maintained in the 80.0 % range, while the average rate per room sold has exceed the \$ 85.00 level. This combination of guest room volume and yield in turn represents an annual "revpar" in of approximately \$ 70.00, an increase of 18.2 % over fiscal (99/00). The undernoted table depicts some of the operating performance highlights:

Year	2001	2000	Change
Months of Operation	12	12	
Revenue	\$ 3,062,104	\$ 2,216,606	38.1%
Operating Income (EBITDA)	\$ 1,714,296	\$ 1,294,694	32.4%
Average rate per room sold	\$ 87.35	\$ 78.59	11.1%
Revpar	\$ 69.63	\$ 58.87	18.2%

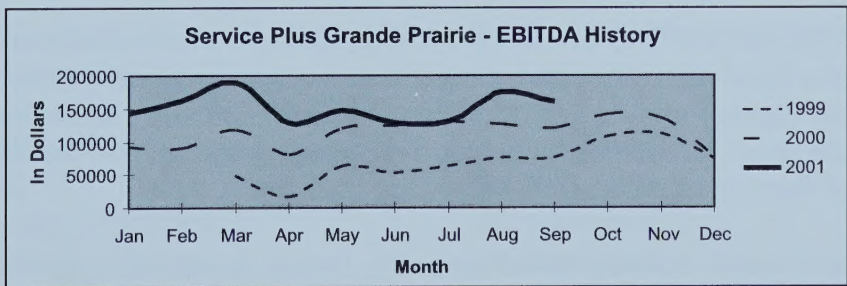
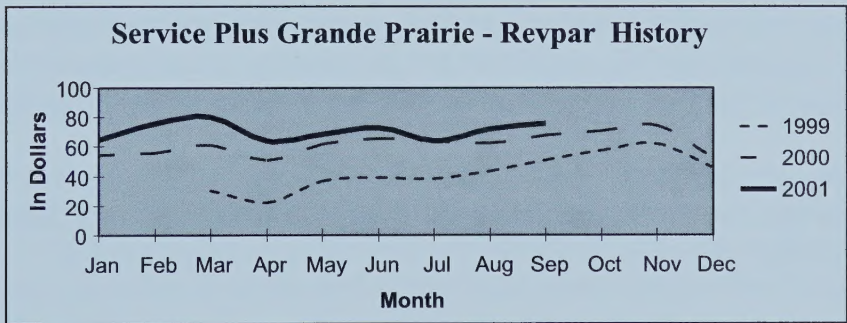
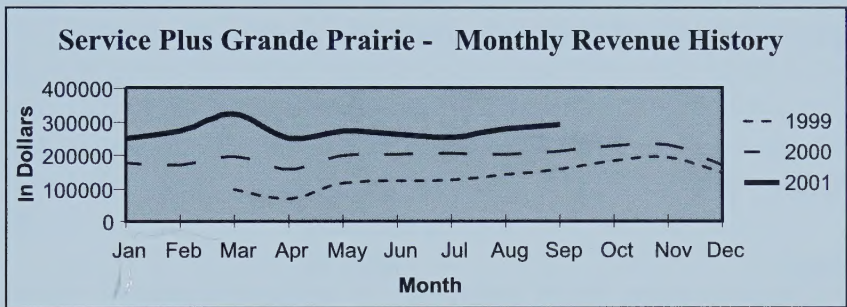
As indicated by these figures the volume levels, financial results and the favorable growth pattern over the prior year has proven consistently positive. The hotel's location is situated next to the Great Northern Casino, and in the Gateway Power shopping center which provides the most modern shopping facilities available in Northern Alberta. The hotel also is located next to the Alaska Highway, with several quality restaurants and entertainment facilities nearby.

In addition to the excellent location, these strong results are also attributed to the property's high level of service, new indoor waterpark and other new guest facilities, combined with the continued aggressive marketing efforts. The marketing programs are intended to seek those companies and individuals requiring accommodations in Grande Prairie in the personal form. From the actions of management, and the presence of these valuable features, the hotel has become a market share leader.

The economic outlook for the northwestern region of the province is anticipated to be favorable for the new fiscal year (01/02). Companies involved in the development and

servicing of northern pipelines, oilfield, and the forest related industries are expected to operate at similar high levels throughout 2002. The effects of the U.S. trade tariff's in the forest industry, the September 11 tragedies, or the recent decline in gas and oil prices have not impacted the property revenue base in any meaningful way. At this time, management contends these issues should not present statistically material changes in business volume to the hotel throughout 2002. The hotel has also developed a significantly larger market share of government related accommodations through direct marketing efforts. Weekend and sports team travel from British Columbia has also increased resulting from the reasons previously described.

The undernoted graphs clearly measure these positive effects for the property's performance reporting the monthly changes in Total Revenues, Revpar's, and EBITDA returns.



These graphs illustrate three non-intersecting lines, one for each year's performance. Each line layered in chronological order reveals a consistent growth pattern. The line cohorts of 2001 in each graph also evidence the favorable impact of the expansion.

With the maturation of the revenue stream expected during fiscal (01/02), management is forecasting total revenues in the range of \$ 3.5 million, with an EBITDA approaching the \$ 2.0 million mark. This is based on the assumption EBITDA returns on revenue of 56.0 % of which have been earned throughout fiscal (00/01), and occupancies are maintained at the present level.

Presently there are approximately \$ 5.2 million in assets with 45 % equity invested by the joint ventures. The hotel property has generated an after tax return on equity of 29.9 %

Multi Tenant Leased Facility - Grande Prairie, Alberta

This facility is located next to the 123 unit Service Plus in Grande Prairie. Fully occupied since Mid-March 1999, its array of tenants feature a Modern Pub, Restaurant, and a Liquor Store. The building has maintained long-term triple net leases in place since its inception. The building originally cost \$ 643,550 and occupies 10,530 square feet. Some of the financial highlights for the fiscal year are undernoted as follows:

Year	Fiscal (99/00)	Fiscal (00/01)
Lease Revenues and Fees	\$ 166,100	\$ 166,239
EBITDA	\$ 120,000	\$ 112,600
EBITDA Percentage	48.0 %	45.4 %

Capital additions and improvements to the commercial lease facilities amounted to \$ 11,483. These expenditures represented air conditioning improvements for tenants and fencing to the rear of the building to improve the appearance of the property.

With initial equity of \$ 250,000., the after tax share directed to Service Plus Hospitality for the '00/01 fiscal year would be approximately \$ 32,000. This would translate into a return on equity of 25.6 %.

Great Northern Casino - Grande Prairie, Alberta

The Operating Income (EBITDA) produced from the Grande Prairie Casino exceeded \$ 4.3 million during the fiscal year. After deducting the non-controlling interest and income taxes, net income from gaming totaled \$ 1.16 million for fiscal (00/01) - an increase of 40.5% over the previous year. Annual revenues for the operation totaled \$ 8.0 million, up sharply by 33.0 % over fiscal (99/00).

Management anticipates monthly operating profits before depreciation for fiscal (01/02) to average in the \$ 350,000 plus range. This projection assumes no changes are made in either the facility or the gaming devices or facilities presently available.

Contract Construction

During the fiscal year there were no construction contracts undertaken through the company. Management continues to involve and retain the services of top project and construction management at a minimal cost to the company during the fiscal year. For the majority of the year, these individuals have been involved in the planning and costing phases of the Deerfoot Inn and Casino project in addition to several other projects of which management is contemplating. Project personnel are expected to continue to function in a similar relationship to Service Plus Hospitality throughout fiscal (01/02).

Deerfoot Inn and Casino Joint Venture Project

The proposed project is presently in its infancy stages. Although considerable work has been undertaken in the areas of planning, design, budgeting, the land acquisition, etc., the significant task of obtaining the casino gaming license remains ahead. Management projects Alberta Gaming and Liquor Commission should lift their current moratorium in early 2002. Presently, it is uncertain what Alberta Liquor and Gaming's exact requirements are in order to obtain a casino license; or the length of time the application process will entail. Management is prepared to face these challenges with vigor, and through their efforts, the joint venture should become a prime candidate and a significant competitive force to earn a casino license.

The contemplated proposal includes a 190-room hotel with a waterpark, convention facilities, and an attached 50,000 square foot casino entertainment center. The 13.1 acre site situated in the new Douglasdale Business Park in SouthEast Calgary has been acquired by the joint venture during the recent year for \$ 4.58 million. The location of the site provides excellent visibility for motorists on both the Deerfoot and Barlow Trail, travelling in any direction.

The total cost of the project including working capital requirements is presently projected at \$ 30.0 million. The total equity requirements are estimated at \$ 13.0 million of which \$ 4.94 million have been invested as at the end of the fiscal year. Service Plus Hospitality financed its portion of the land acquisition with available cash on hand

The joint venture partners and their respective capital contributions and interests in the land acquisition are undernoted:

Service Plus Hospitality Ltd.	40.0 per cent
Will Inns Ltd.	31.0 per cent
Winners Gaming Corporation	20.0 per cent
JD Woods Investments Ltd.	9.0 per cent

Will Inns Ltd. is controlled by David Will, president and chairman of the corporation. Winners Gaming Corporation is controlled by Darcy Will, a director of the corporation. JD Wood Investments Ltd. is controlled by Jed Wood, a director of the corporation. Due to the

potential conflict of interests associated with the joint development, the corporation has appointed a special committee of directors to negotiate and review all matters on behalf of the corporation. The special committee of directors consists of James McPherson, the sole arm's-length director.

Administration and Overhead Expenses

General and administrative expenses include, among other items administrative wages and benefits, bank charges, head office expenses, professional and consulting fees, travel, public company fees, head office telephone, and directors and officers insurance. In the case of hotel related expenses, these costs decreased by approximately \$ 15,000. during the fiscal year. The deletion of the burden costs attributed to Service Plus Lloydminster played an integral part in this reduction.

With the substantial revenue increase in the Great Northern Casino, administrative expenses increased by approximately \$ 72,000. Janitorial, security, insurance, property taxes and utilities expenses were the areas most affected by the dramatic changes in activity. General and Administrative expenses incurred by head office have remained virtually unchanged during the year. With the restructuring of duties and responsibilities in early 2001, head office payroll expenses decreased by approximately \$ 17,000 during the year. Service Plus Hospitality is fully paying its appropriate share of administrative costs which it is responsible for.

Management believes the company has now established the core infrastructure necessary to carry the company through a period of further planning and growth. As the company continues to grow and develop, it will be necessary to add among other human resources, people with special responsibilities such as human resource management.

Amortization

With the deletion of Service Plus Lloydminster combined with the application of the 50.0 % rule of depreciating newly acquired assets during the current year, annual depreciation expenses decreased by approximately \$ 70,000. The company intends to continue its investment in capital assets primarily consisting of land, internally constructed buildings, furnishings, fixtures, and equipment.

Interest on Long-Term Debt

With the decline in prime lending rates throughout 2001, a \$ 94,000 decrease in interest expenses resulted during the fiscal period. The deletion of Service Plus Lloydminster accounted for the majority of the comparative decrease. The reduction in expenses due to significant rate cuts more than offset the added expenses incurred from the additional \$ 563,000. in long-term debt proceeds used for financing the expanded facilities in Grande Prairie. The interest coverage ratio for Service Plus Hospitality Ltd. for the fiscal year, using the calculation (Earnings before Interest and Taxes)/(Interest expense) was 13.5:1, or annual interest on long-term debt is repaid every 27 days with usable earnings.

Income Taxes

Income taxes payable for the fiscal year totaled \$ 1,972,915. A balance of \$ 386,944 remained payable during the first quarter of the fiscal (01/02) of which has been paid. As a result of the increased profitability of the company - incomes taxes payable have increased by \$ 393,572. or 24.9 % during the fiscal year. Corporate Provincial and Federal Income Taxes for the 1999 - 2000 year are paid monthly at a rate of \$ 15,375. by Service Plus Hospitality Ltd., and \$ 149,018 per month by Great Northern Casino Ltd., respectively.

Net Income

Net income increased substantially from \$1,190,739 during 2000 to \$ 1,420,892 in 2001- nearly doubling the company's contributed surplus. The increase in net income is mainly attributable to the expansion of the Grande Prairie hotel and casino facilities. The Great Northern Casino has experienced financial prosperity, which has exceeded the expectations of management. The company's long-term outlook for gaming in North Western Alberta is positive. The continued implementation of the "model" combined with the enlarged facilities; this level of financial performance should continue. Management contends the sales activity of the Grande Prairie operations will continue to grow and mature beyond their present level.

Management believes direct operating costs will increase at a lower rate than the rate of increased revenues. As evidenced from the financial results of fiscal (00/01) decreased operating cost percentages of direct revenues are the result of strong cost control measures and the benefits derived from economies of scale. Management will also continue to outsource the industry for its requirements where possible. At this level of development in the company future earnings per share - basic, are expected in the range of 18.5 - 20 cents annually.

Operating line of credit

Service Plus Hospitality has an operating line of credit with the Royal Bank of Canada of \$ 25,000. As at September 30, 2001, a total of 0.00 (nil) was drawn against the account.

Cash Resources and Short-term Investments

The total cash in the bank and on hand as at September 30, 2001 was reported at approximately \$ 2.36 million. Compared with the previous year this represents a decrease of \$ 1.34 million. As reported in the audited 'Statement of Cash Flows', the company invested approximately \$ 2.5 million in capital assets. Current liabilities were also reduced by over \$ 1.0 million during the year. With these significant changes in the balance sheet - net working capital increased by approximately \$ 30,000.

As of the end of the first quarter of the '01/02 fiscal year, all accounts payable and income taxes have been paid, totaling approximately \$ 800,000. At year-end closing, Service Plus Hospitality had in excess of \$ 1.5 million in 30 day Guaranteed Investment Certificates. These funds are available for the purposes of internally financing future ventures as initiated by management. In addition to these liquid assets available, Service Plus Hospitality has \$ 150,000. in outstanding deposits for potential land acquisitions as situations and opportunities may warrant.

Funds Provided by Operations

The operating activities of the company provided funds of \$ 1.5 million for fiscal 2001 compared with \$ 3.2 million for fiscal 2000, a decrease of \$ 1.7 million. The major contributing factor for the decrease was the reduction in non-cash working capital. During fiscal 2000 changes in non-cash working capital increased by \$ 1.07 million. Cash flows derived from direct operations increased by approximately \$ 742,000 during the year.

Funds Provided from Financing

In order to complete the expansion of the facilities in Grande Prairie, the balance of funding from the Canadian Western Bank amounting to \$ 1.26 million was completed in late 2000. As discussed under 'Interest on Long-Term Debt', the company increased its debt by \$ 455,369, to total \$ 2,602,958. The additional funding has been secured with the land and buildings in Grande Prairie owned by the joint venture.

Pursuant to a private placement, the company sold 268,000 common shares providing gross proceeds of \$ 348,000. During the period, options were exercised by shareholders purchasing 100,000 shares, resulting in the Company realizing an additional \$ 70,000. in net proceeds.

Funds Used for Investing

During the 2001 fiscal year, the company expended \$ 2.56 million on the purchase of capital assets and investment funding into the Deerfoot Inn and Casino Joint Venture. This compares to \$ 842,754 for fiscal 2000. The portion relating to capital expenditures (\$ 560,000.) was exclusively expended on the Grande Prairie expansions. The company intends to continue investment and development in the immediate future.

Liquidity

At September 30, 2001 the company's net working capital position (current assets - current liabilities) is reported at \$ 2.25 million compared to \$ 2.01 million the previous year. In general, all trade payables requirements are disbursed within 30 days of receipt of the related good and services provided to the company. Approximately 90 % of the accounts receivable - trade are less than 30 days old.

Key Financial Ratios

The financial ratios undernoted have been presented in comparison to the performance levels of prior years where possible...

Financial Ratio/Year	2001	2000	1999	1998
Current Ratio	3.58	2.06	1.61	.450
Debt to Equity Ratio	.413	.480	1.13	.742
Interest Coverage - Earnings (1)	13.49	8.77	4.52	1.35
Cash flow coverage ratio (2)	10.58	7.64	4.68	3.19
Earnings per share - Basic	\$ 0.1878	\$ 0.1641	\$ 0.0454	\$ -
Earnings per share - Fully Diluted	0.1718	0.1416	0.0416	-
Cash Flow - Basic	0.3804	0.2942	0.1305	-
EBITDA per Share	0.5226	0.4909	0.2100	-
Shareholders Return on Equity	41.9 %	40.0 %	10.7 %	0.2 %

(1) Calculation: (Earnings before Interest and Taxes)/(Interest Charges)

(2) Calculation: (Annual Cash Flow before Interest and Taxes)/(Interest Charges + Principal Payments)

A ratio of particular note is the debt to equity ratio. At September 30, 2001 the long term debt and the equity of the company was relatively low. Furthermore, the interest coverage ratios support the ability of the company to manage its debt both through earnings and cash flow. These ratios confirm Service Plus Hospitality is in a positive position for further growth and expansion.

Corporate Profile

Service Plus Hospitality Ltd. is a new dynamic Casino Gaming/Hotel Company striving to be a premier destination Casino/Hotel Operator in Canada of which delivers industry leading returns for its investors.

Now with 3 hotel operations under the name 'Service Plus Inns and Suites' as of April 01, 1999. the company plans to continue its strategic expansion - a plan which over the long-term, calls for Service Plus Hospitality Ltd. to become one of the leading hotels of choice by destination travelers throughout Western Canada. Service Plus also horizontally integrated with Casino/Gaming and Contract Construction all of which, are strong catalysts in providing superior returns on equity.

Service Plus Hospitality began operations on June 01, 1998 when it acquired Service Plus Inns and Suites in Lloydminster, Alberta. This was the first major transaction for the public company. Today, it is complimented with a 50 % interest in a \$ 8.8 million project consisting of a new casino facility, hotel, and commercial lease centre in Grande Prairie. The company's web site is available at <http://www.serviceplus-svh.com>.

Service Plus Hospitality is a public company listed on the Canadian Venture Exchange trading under the symbol SVH.

Disclaimer

The information contained herein is for management purposes and discussion only. Financial projections are based on management's best estimates only and do not purport to be a complete analysis of the company. Financial illustrations account for the corporations existing operating assets only. This document is not be reproduced without the written consent of Service Plus Hospitality Ltd.

Consolidated Financial Statements

To the Shareholders of
Service Plus Hospitality Ltd.

We have audited the consolidated Balance Sheets of Service Plus Hospitality Ltd. as at September 30, 2001 and 2000 and the consolidated Statements of Earnings and Retained Earnings and Cash Flows for the two years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Heywood Holmes & Partners LLP
Chartered Accountants

Red Deer, Alberta
November 16, 2001

Balance Sheet

September 30, 2001

Assets	2001	2000
CURRENT ASSETS		
Cash	\$ 2,367,263	\$ 3,708,640
Accounts receivable	494,304	156,619
Inventories	18,749	13,747
Prepaid expenses	48,311	29,620
Non-controlling interest (Note 3)	94,801	—
	3,023,428	3,908,626
DEPOSIT ON LAND	150,000	270,000
DEFERRED CHARGES	78,758	84,970
CAPITAL ASSETS (Note 4)	6,196,009	3,861,909
GOODWILL	399,309	456,657
	\$ 9,847,504	\$ 8,582,162

Liabilities

CURRENT LIABILITIES		
Accounts payable	\$ 457,538	\$ 805,768
Income taxes payable	386,944	1,026,483
Long term debt due within one year	74,496	68,229
Non-controlling interest (Note 3)	—	53,312
	918,978	1,953,792
LONG TERM DEBT (Note 5)	2,529,472	2,074,103
FUTURE INCOME TAXES	98,074	92,179
TOTAL LIABILITIES	3,546,524	4,120,074

Shareholders' Equity

SHARE CAPITAL (Note 6)	3,391,915	2,973,915
RETAINED EARNINGS	2,909,065	1,488,173
	6,300,980	4,462,088
	\$ 9,847,504	\$ 8,582,162

On behalf of the board:



David J. Will, Director



David E. Harrop, Director

Statement of Earnings and Retained Earnings

Year Ended September 30, 2001

	2001	2000
REVENUE	\$ 9,749,727	\$ 9,203,001
DIRECT EXPENSES	4,114,409	4,654,601
GROSS MARGIN	<u>5,635,318</u>	<u>4,548,400</u>
EXPENSES		
Amortization	281,801	350,977
General and administration	524,335	467,882
Interest on long term debt	<u>272,033</u>	<u>366,021</u>
	<u>1,078,169</u>	<u>1,184,880</u>
INCOME FROM OPERATIONS	4,557,149	3,363,520
GAIN ON SALE OF LLOYDMINSTER MOTOR HOTEL	—	331,915
NON-CONTROLLING INTEREST (Note 3)	(1,169,387)	(850,362)
GAIN ON SALE OF PORTFOLIO INVESTMENTS	<u>11,940</u>	<u>—</u>
INCOME BEFORE INCOME TAXES	<u>3,399,702</u>	<u>2,845,073</u>
INCOME TAXES (Note 8)		
Current	1,972,915	1,579,343
Future	<u>5,895</u>	<u>74,991</u>
	<u>1,978,810</u>	<u>1,654,334</u>
NET INCOME	1,420,892	1,190,739
BALANCE, BEGINNING OF YEAR	<u>1,488,173</u>	<u>297,434</u>
BALANCE, END OF YEAR	\$ 2,909,065	\$ 1,488,173
PER SHARE INFORMATION:		
Earnings per share - basic	\$ 0.1878	\$ 0.1641
Earnings per share - diluted	0.1718	0.1517
Cash flow - basic	0.3804	0.2942
Earnings before interest, taxes and amortization	0.5226	0.4909

Statement of Cash Flows

Year Ended September 30, 2001

	2001	2000
Cash provided by (used for)		
Operations		
Net income	\$ 1,420,892	\$ 1,190,739
Add (deduct) non-cash items:		
Amortization	281,801	350,977
Future taxes	5,895	74,991
Gain on sale of capital assets	—	(331,915)
Non-controlling interest (Note 3)	<u>1,169,387</u>	<u>850,362</u>
	2,877,975	2,135,154
Net changes in non-cash working capital:		
Accounts receivable	(337,685)	20,366
Inventories	(5,003)	(286)
Prepaid expenses	(18,692)	37,358
Accounts payable	(348,228)	489,176
Income taxes payable	<u>(639,539)</u>	<u>523,892</u>
Cash from operating activities	<u>1,528,828</u>	<u>3,205,660</u>
Financing		
Payment to non-controlling interest (Note 3)	(1,317,500)	(1,417,139)
Proceeds from long term debt	563,000	189,000
Repayment of long term debt	(101,365)	(1,475,741)
Deferred finance charges	6,212	68,433
Share capital issued	<u>418,000</u>	<u>246,816</u>
Cash (used for) financing activities	<u>(431,653)</u>	<u>(2,388,631)</u>
Investments		
Deposit on land	120,000	(270,000)
Purchase of capital assets.....	(2,558,552)	(842,754)
Proceeds on sale of capital assets	—	<u>2,718,400</u>
Cash from (used for) investment activities	<u>(2,438,552)</u>	<u>1,605,646</u>
Increase (decrease) in cash	(1,341,377)	2,422,675
Cash, beginning of year	<u>3,708,640</u>	<u>1,285,965</u>
Cash, end of year	\$ 2,367,263	\$ 3,708,640

1. Significant Accounting Policies

- a) Capital assets are recorded at cost less accumulated amortization. The company provides for amortization using rates and methods designed to amortize the cost of the capital assets over their estimated useful lives. Amortization rates and methods are as follows:

Land improvements	-	2%	straight line
Building	-	5%	reducing balance
Furniture, fixtures and equipment	-	20%	reducing balance

- b) Inventories are valued at the lower of cost and net realizable value, cost being determined by using the first-in, first-out method.
- c) Basic earnings per share is calculated on the weighted average number of common shares outstanding for the year, which amount to 7,564,759 (2000 - 7,256,600).

Diluted earnings per share are calculated by application of the Treasury Stock Method. Under this method, the shares are calculated based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of the exercise of those employee stock options which were "in-the-money" during the year and the conversion of the preferred shares to common shares. The number of shares utilized in calculating diluted earnings per share amounted to 8,269,419 (2000 - 7,850,499)

- d) The Company follows the future method to account for income taxes. Under this method, the Company recognizes a future income tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow. Similarly, the Company recognizes a future tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions.
- e) Deferred finance charges related to the issuance of share capital and long term debt are amortized on a straight line basis over five years and are recorded at cost less accumulated amortization.
- f) The carrying value of the financial instruments, consisting of cash, amounts receivable, amount payable and long term debt, approximate their fair market value due to their short term maturity or capacity of prompt liquidation.
- g) The Company provides for amortization of goodwill and other assets on a straight line basis over 10 years.
- h) The consolidated financial statements include accounts of a wholly owned subsidiary and a subsidiary in which the company holds a 51% interest. All significant intercompany accounts and transactions are eliminated. The excess of the consideration paid for the shares of the subsidiaries over the underlying net book value at the date of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.
- i) The Company capitalizes interest incurred on term debt relating to capital assets which are under construction during the period.
- j) The preparation of the financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.
- k) The company follows the indirect method in reporting its cash flows from operating activities.

Notes to Financial Statements

September 30, 2001

2. Change in Accounting Policy

During the year, the Company changed its method of computing diluted earnings per share to the Treasury Stock Method as required by the Canadian Institute of Chartered Accountants. The retro-active effect of applying this method of calculating diluted earnings per share is as follows:

	2001	2000
As previously reported	0.1750	0.1460
Treasury Stock Method	0.1718	0.1517

3. Non-Controlling Interest

49% of Great Northern Casino Ltd. is held by 599754 Alberta Ltd. Mr. David J. Will, President and Chief Executive Officer and director of the Company, is the controlling shareholder of 599754 Alberta Ltd.

4. Capital Assets

	<u>Cost</u>	<u>2001</u> <u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u>	<u>2000</u> <u>Net Book</u> <u>Value</u>
Land	\$ 2,568,372	\$ —	\$ 2,568,372	\$ 735,772
Land improvements	353,603	12,545	341,058	330,146
Building	3,089,391	275,179	2,814,212	2,266,112
Furniture, fixtures and equipment	<u>755,175</u>	<u>282,808</u>	<u>472,367</u>	<u>529,879</u>
	\$ 6,766,541	\$ 570,532	\$ 6,196,009	\$ 3,861,909

5. Long Term Debt

	2001	2000
Mortgage repayable in monthly instalments of \$18,850 including interest at the bank's prevailing prime lending rate plus 1.5% per annum. The mortgage is secured by land and buildings with a carrying value of \$3,746,125 and is due February 1, 2002.	\$ 1,872,504	\$ 1,940,661
Bank loan repayable in monthly instalments of \$1,023 including interest at the bank's prevailing prime lending rate plus 1.5% per annum. The loan is secured by equipment with a carrying value of \$22,461 and is due October 16, 2001.	1,010	12,671
Mortgage repayable in monthly instalments of \$7,550 including interest at the bank's prime lending rate plus 1.5% per annum. The mortgage is secured by land and buildings with a carrying value of \$3,746,125 and is due February 1, 2002.	<u>730,454</u>	<u>189,000</u>
	2,603,968	2,142,332
Less current portion	<u>74,496</u>	<u>68,229</u>
	\$ 2,529,472	\$ 2,074,103

Estimated principal repayments for the next five years are:

2002	\$ 74,496
2003	79,070
2004	84,997
2005	90,297
2006	96,495

Notes to Financial Statements

September 30, 2001

6. Share Capital

Authorized -

Unlimited number of common, voting shares

Unlimited number of preferred shares, issuable in series

Issued -

	2001		2000	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Common shares				
Balance, beginning of year	7,322,343	\$ 2,823,915	6,987,518	\$ 2,577,100
Issued - private placement	268,000	348,000	—	—
Issued - exercise of options	100,000	70,000	258,956	132,307
Issued - conversions of warrants	—	—	169,869	212,336
Cancelled - normal course issuer bid	—	—	(94,000)	(97,828)
Balance, end of year	7,690,343	3,241,915	7,322,343	2,823,915
Preferred shares - Series 1	300,000	150,000	300,000	150,000
		\$ 3,391,915		\$ 2,973,915

The directors of the Corporation are authorized to determine the designation, rights, privileges, restrictions and conditions attached to all of the preferred shares.

The Series 1 preferred shares are non-voting and may be converted into an equal number of common shares for no additional consideration.

As of September 30, 2001, common shares of the company were reserved as follows:

<u>706,000</u>	Shares for issue on exercise of directors, officers, employees and consultants stock options at \$0.50 and \$0.90 per share for terms as determined by the directors.
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September 30, 2001

7. Segmented Information

The Company's operations are predominantly in the hotel accommodation and gaming industries. The Company derives its revenues from marketing its services in Western Canada.

The hotel accommodation division includes the operations of the motor hotels and commercial real estate. The gaming division includes the operations of the casino facility. Head office and market research division includes administration and marketing functions. The construction division includes construction performed on behalf of arm's length parties. In addition, the construction division constructed the joint venture facilities costing a total of \$821,528, of which the company owns 50%.

2001

	Hotel	Gaming	Construction	Head Office and Market Research	Consolidated
Total revenue	\$ 1,615,171	\$ 8,016,925	\$ 1,806	\$ 115,825	\$ 9,749,727
Direct expenses	608,059	3,501,818	4,532	—	4,114,409
Amortization	203,875	76,628	—	1,298	281,801
General and administrative expenses	109,722	192,419	—	222,194	524,335
Interest expense	126,613	126,415	—	19,005	272,033
	1,048,269	3,897,280	4,532	242,497	5,192,578
Net income (loss) before undernoted items	566,902	4,119,645	(2,726)	(126,672)	4,557,149
Non-controlling interest	—	(1,169,387)	—	—	(1,169,387)
Gain on sale of portfolio investments	—	—	—	11,940	11,940
Net income (loss) before taxes	566,902	2,950,258	(2,726)	(114,732)	3,399,702
Income taxes (recovery)	237,314	1,790,488	(1,137)	(47,855)	1,978,810
Net income (loss)	\$ 329,588	\$ 1,159,770	\$ (1,589)	\$ (66,877)	\$ 1,420,892
Capital expenditures - completed projects	\$ 320,479	\$ 261,808	\$ —	\$ —	\$ 582,287
Capital expenditures - projects in progress					1,976,265
Total capital expenditures					\$ 2,558,552

Total capital assets - net book value	
- Hotel	\$ 2,644,650
- Gaming	1,575,094
- Projects in progress	1,976,265
	\$ 6,196,009

Notes to Financial Statements

September 30, 2001

7. Segmented Information (Continued)

2000	Hotel	Gaming	Construction	Head Office and Market Research	Consolidated
Total revenue	\$ 1,797,518	\$ 6,032,179	\$ 1,307,781	\$ 65,523	\$ 9,203,001
Direct expenses	678,730	2,653,682	1,322,189	—	4,654,601
Amortization	279,791	69,817	—	1,369	350,977
General and administrative expenses	124,813	120,102	—	222,967	467,882
Interest expense	165,042	117,039	—	83,940	366,021
	<u>1,248,376</u>	<u>2,960,640</u>	<u>1,322,189</u>	<u>308,276</u>	<u>5,839,481</u>
Net income (loss) before undernoted items	549,142	3,071,539	(14,408)	(242,753)	3,363,520
Gain on sale of investment	331,915	—	—	—	331,915
Non-controlling interest	—	(850,362)	—	—	(850,362)
Net income (loss) before taxes	881,057	2,221,177	(14,408)	(242,753)	2,845,073
Income taxes (recovery)	373,063	1,396,016	(6,429)	(108,316)	1,654,334
Net income (loss)	\$ 507,994	\$ 825,161	\$ (7,979)	\$ (134,437)	\$ 1,190,739
Capital expenditures - completed projects	\$ 304,895	\$ 535,834	\$ —	\$ 2,025	\$ 842,754

Total capital assets - net book value	
- Hotel	\$ 2,462,389
- Gaming	<u>1,399,520</u>
	\$ 3,861,909

8. Income Taxes

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to income before provision for income taxes as shown in the following table:

	2001		2000	
	Amount	Percent	Amount	Percent
Provision for income taxes				
at statutory rates	\$ 1,414,956	41.62	\$ 1,269,472	44.62
Non-controlling interest	486,699	14.32	379,338	13.33
Non-taxable portion of capital gain	(2,485)	(0.07)	—	—
Gain on sale of Lloydminster Motor Hotel	—	—	(31,450)	(1.11)
Non-deductible amortization	23,868	0.70	36,974	1.30
Income tax rate changes	55,772	1.64	—	—
	<u>\$ 1,978,810</u>	<u>58.21</u>	<u>\$ 1,654,334</u>	<u>58.14</u>

9. Related Party Transactions

The Company has paid Will Inns Ltd. management fees totalling \$88,712 (2000 - \$66,329) for the Grande Prairie Motor Hotel and Lloydminster Motor Hotel. Will Inns Ltd. is controlled by Mr. David J. Will.

The Grande Prairie Motor Hotel, multi-tenant complex and casino facility constructed in 1999 are owned jointly with Will Inns Ltd. The company's 50% interest is accounted for utilizing the proportionate consolidation method, wherein the accounts reflect only the company's proportionate interest in the venture.

During the year, \$153,158 (2000 - \$122,896) was paid to Winners Gaming Corporation Ltd. for management services and \$123,468 (2000 - \$37,343) was received from Boomtown Casino Ltd. for security services. Winners Gaming Corporation Ltd. and Boomtown Casino Ltd. are controlled by Mr. Darcy J. Will.

The capital projects in progress are jointly owned by Will Inns Ltd., Winners Gaming Corporation, and JD Wood Investments Ltd. The company's 40% interest is accounted for utilizing the proportionate consolidation method. JD Wood Investments Ltd. is controlled by Mr. Jed Wood.

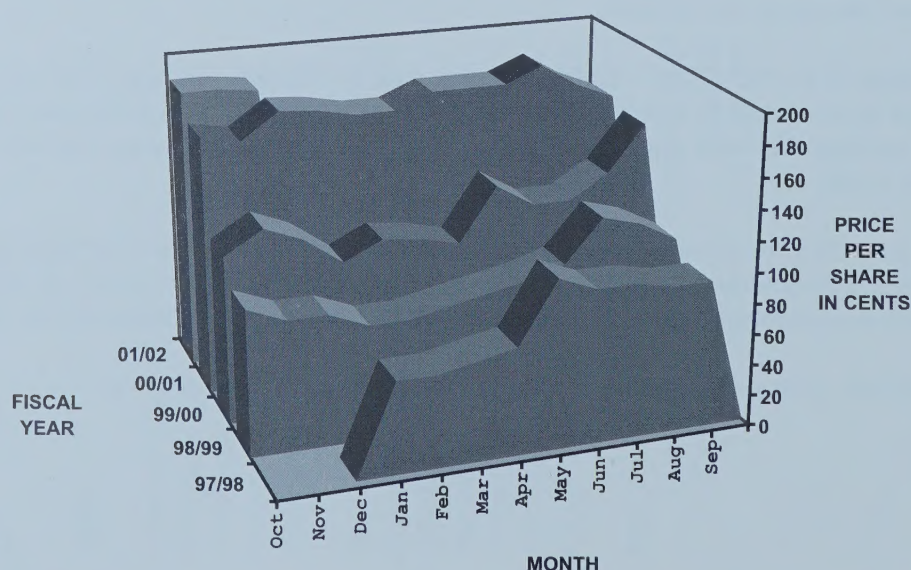
Mr. David Will, Mr. Darcy Will, and Mr. Jed Wood are directors of the company.

Financial and Operating Highlights

Year Ended September 30, 2001 (\$ Thousands except where noted)

	2001	2000	% Change
Operating revenue	9,749	9,203	5.9
Gross margin	5,635	4,548	23.9
Cash flow	2,897	2,135	35.6
Cash flow per share, basic	.3804	.2942	29.3
Net Income	1,421	1,191	19.3
\$ per share, fully diluted	.1718	.1517	13.2
Total Assets	9,848	8,582	14.8
Shareholders Equity	6,301	4,462	41.2
Common Shares Outstanding			
at Year End, basic (thousands)	7,690	7,322	5.0
fully diluted (thousands)	300	300	-
Earnings before interest, taxes, and amortization	4,206	3,562	18.1
Return on equity %	41.9	40.0	1.9
Cash, end of year	2,367	3,708	(36.1)

SERVICE PLUS HOSPITALITY LTD.
MONTHLY SHARE PRICES (SVH)



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Royal Bank of Canada
4943 Ross Street
Red Deer, Alberta, T4N 1Y1

Treasury Branches of Alberta
100 - 4911 - 51 Street
Red Deer, Alberta, T4N 6V4

Auditors

Heywood Holmes and Partners
Chartered Accountants
500, 4911 - 51 Street

Annual Meeting

Service Plus Inns & Suites
6853 - 66 Street
Red Deer, Alberta
Monday, August 19, 2002
1:30 pm

Legal Council

Johnson, Ming Manning
3rd Floor, 4943 Ross Street
Red Deer, Alberta, T4N 1Y1

Armstrong Perkins Hudson
1600 - 407 2nd St. SW
Calgary, Alberta, T2P 2Y3

Stock Exchange Listing

The Canadian Venture Exchange
Trading Symbol - SVH

Registrar and Transfer Agent

Computershare
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Calgary, Alberta, T4P 3S8

Directors and Officers

David J. Will

President and Chief Executive Officer

David E. Harrop

Secretary and Chief Financial Officer

Directors

Darcy J. Will *

President - Power Gaming Corp.
Red Deer, Alberta, T4N 6V4

Jim McPherson *

President - McPherson L'Hirondelle
and Associates

Jed Wood

President - High Arctic Well Control Inc.

* Member of the Audit Committee



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